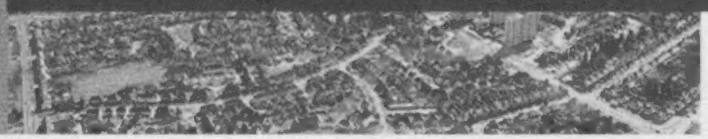
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Winnipeg CMA



Canada Mortgage and Housing Corporation

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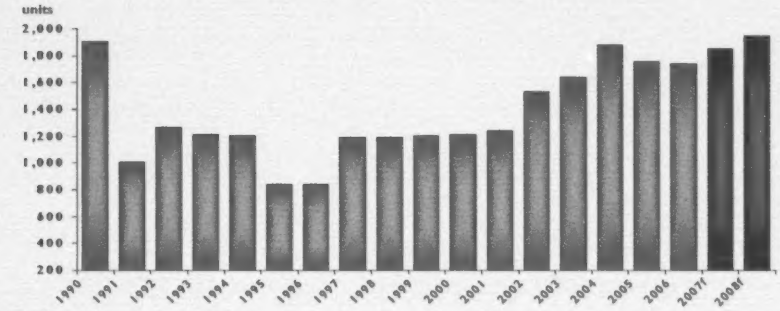
New Home Market

Total starts will surpass strong 2006 by 23 per cent

This year will see total housing starts in the Winnipeg Census Metropolitan Area reach 3,425 units, the highest total since 1988 and 23 per cent ahead of last year's 18-year high. Both single-detached and multi-family construction have had banner years in 2007 and look poised to deliver continued strength in 2008 when a further 3,450 foundations will be poured. That would represent the third new twenty-year high in residential starts in three years. Single-detached construction will benefit from the availability of new lots coming on stream in 2008 after several years of limited lot selection for buyers. The multi-family sector will also continue its strong contribution to the total as buyers increasingly look to condominium units to meet their needs and builders move to reverse a decline in the rental apartment universe.

Figure 1

Single-Detached Housing Starts



Source: CMHC, CMHC Forecast

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The wide variety of economic and demographic factors that have fuelled the strong real estate market in Winnipeg over that last five years are still in place and will continue to provide the backdrop for ongoing gains in all three facets of the residential real estate market. New home construction, resale homes, and the rental market will all benefit in the coming year. This will make Winnipeg one of the few major markets in the country to enjoy growth in both the new home and resale market in 2008.

Single-detached construction poised for another strong year

This year, builders across the Capital region will surpass both the 1,756 single-detached homes started in 2005 and the 1,737 started last year. The 1,850 homes that will be started in 2007 are only 32 shy of the 1,882 homes started in 2004 and represent the second highest level since 1990. Moving into 2008, the CMA will see 1,950 single-detached homes started, a 5.4 per cent increase over 2007.

Demand for new single-detached units in Winnipeg is being propelled by the continued growth in the number of households and persistently low levels of supply in the resale market. Demand is also being sustained by favourable economic factors. The labour market in Winnipeg is operating at full capacity. In addition, 70 per cent of the population between the ages of 15 to 64 is currently employed compared to about 67 per cent for all of Canada.

New home prices across the Winnipeg CMA have increased significantly over the last few years. The New House Price Index (NHPI) has seen increases of 8.5 and 9.4 per cent, respectively, in 2005 and 2006. The NHPI will rise a further seven per cent in 2007 before posting a 6.7 per cent gain in 2008. All of these gains are well above the long-term average increases in the NHPI. The last three years have seen the largest three increases in the index since it started being tracked in 1982.

Some relief is in sight for new home buyers in the fall of 2007 and throughout 2008, however. A significant portion of the increase in new home prices over the last few years has been a result of the scarcity of new land available for development, particularly in the Southwest part of the city. After having only 1,472 new lots in 2005 and 1,358 in 2006, builders and buyers will see at least 2,000 lots come on stream in 2007, and 2,400 in 2008. In early 2008, the City of Winnipeg will be initiating a comprehensive residential land supply strategy with supply projections to 2025. The much anticipated Waverly West development will be the single largest contributor to the new supply (the first lots are to be made available in the fall of 2007), but other areas like Silver Acres and Royalwood in the Southeast, Amber Trails in the Northwest, and Transcona West in the Northeast will also do much of the heavy lifting in terms of lot supply over the next five years.

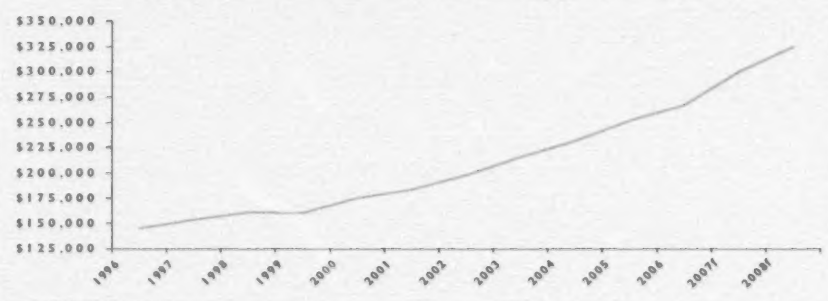
Multi-family starts reflect shifting tastes and need for apartment units

There can be little question that multi-family construction in Winnipeg enjoyed a breakout year in 2007. August saw the foundation poured for the 1,084th unit of the year, already surpassing the 1,040 units started in all of 2006. Winnipeg will see 1,575 multi-family units started in 2007, the most in twenty years. Next year will follow with a further 1,500 units.

Winnipeg has not seen high levels of multi-family construction since the late eighties, especially units whose

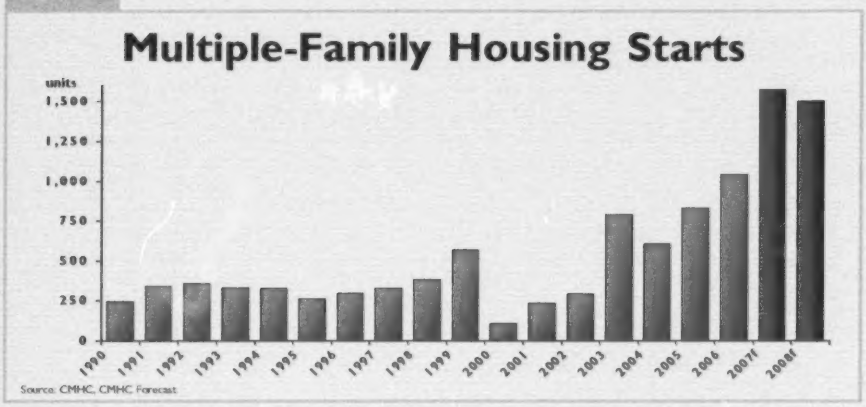
Figure 2

Average Price New Single-Detached



Source: CMHC, CMHC Forecast

Figure 3



purpose in condominium tenure. As such, a condo market of the type in Calgary, Vancouver, or Toronto has been slow to develop in Winnipeg. Increasingly, however, buyers are looking at condominium units from both a lifestyle and a price point of view. Winnipeg has long been one of the most affordable cities in Canada as far as home ownership is concerned. It continues to enjoy that distinction, but five years of double-digit price increase in the resale market have caused a wide spectrum of buyers to consider the condominium market as a viable alternative. Given that about half of Winnipeg's population is in the first time and move-up buyer stage of home ownership, demand for condominium units will remain strong for several years. Builders have responded to that demand by ramping up production 51 per cent in 2007 and will maintain that level of activity into 2008.

Resale Market

Demand remains robust. Supply is tight. Price gains continue.

The resale market in Winnipeg will continue its robust pace through 2007 and into 2008. This year has been the strongest of the five year bull market for resale homes. Average MLS® prices, which have seen double digit gains in each of the past four years, will rise 12.9 per cent in 2007 followed by a strong 8.3 per cent gain in 2008. That represents an average resale price of $174,500 in 2007 and $189,000 in 2008.

As an indicator of the strength in the resale market, the sales-to-active listings ratio (SALR), which is a measure of the balance between supply and demand, has stood at more than 100 per cent for six months in 2007. This indicates there is less than one month of supply in the resale market. Under such circumstances, sellers will continue to have the upper hand in negotiations and further upward price pressure will result. While this ratio will trend downward in during the final months of 2007 and into 2008, Winnipeg will not see the more dramatic turnaround in the SALR that Calgary and Edmonton have already experienced.

In order for a more balanced market to develop, either the number of active listings will have to trend up over time, or the number of buyers will have to diminish. The scarcity of available lots mentioned above has, in the past, prevented buyers from easily opting to purchase a new home if the resale market proved too tight. This pressure will ease somewhat in 2008, but the effect will be moderate given that most of the lots will be in specific neighbourhoods, and Winnipegers tend to exhibit a significant degree of neigh-

Figure 4

bourhood loyalty. Demand, however, will remain robust due to migratory and economic factors discussed below.

This year will finish with 12,350 MLS® residential sales in the Winnipeg CMA, up 6.5 per cent from 2006. Sales will continue to move forward in 2008, but at a much more moderate growth rate of 0.8 per cent to reach 12,450 in 2008. Given the path of prices, however, the dollar volume of those sales will increase by 9.2 per cent in 2008.

New listings will continue their path of expansion from the last three years, increasing 3.1per cent in 2007 to 15,250 units and a further 4.9 per cent in 2008 to reach 16,000 units. Despite the run-up in the value of their homes, Winnipeggers have been reluctant to put them on the market as they have in other markets in Western Canada. Some of this reluctance comes from seniors who would be happy to move into an adult lifestyle condominium in their area if one were available. In addition, Winnipegers have among the highest propensities to renovate of the citizens of any of Canada's major centres, according to a CMHC study on renovation intentions, suggesting that people are satisfied to modify their existing homes to suit their needs rather than looking to the resale market.

Rental Market

Influx of new families will reduce the vacancy rate further

Winnipeg will see continued scarcity of vacant rental units through the remainder of 2007 and into 2008. Vacancy rates will remain below 1.5 per cent through 2008 as both supply and demand factors come together to make a tight market tighter. With expected vacancy rates of 1.4 per cent in 2007 and 1.2 per cent in 2008, the Capital region will experience its second lowest apartment vacancy on record, marginally behind the 1.1 per cent vacancy rate recorded in 2004.

Despite Winnipeg's multi-decade low vacancy rates, new rental construction has been virtually non-existent for several years. In fact, Winnipeg has had a declining universe of rental units every year since the peak in 2003, losing 1,539 units, or three per cent from October 2003 to April 2007. This has created supply constraints that will take time to reverse themselves, certainly well past the time frame of CMHC's 2008 forecast. Rental construction has seen a marked improvement in 2007, but it will not be sufficient to reverse the recent declines in the rental housing universe. There have been 627 multi-family units started in the first eight months of 2007 that are intended for rental tenure, compared to only 215 in the first eight months of 2006 and 613 for the entire year. Given the positive outlook for multi-family construction in general, 2008 should see a continuation of above average rental construction.

On the demand side, Winnipeg continues to enjoy the benefits of international migration on a number of fronts. Since new immigrants to Canada tend to be renters in their first few years of residence, the implication for the rental market is a further tightening as new arrivals compete for a limited number of vacant apartments. With 4,000 new Winnipegers in 2007 and 3,500 more in 2008 (most of them international immigrants), those intending to rent should make every effort to ensure they have secured accommodations prior to their arrival. This is also a trend that is well established and shows no signs of reversing itself over the course of the forecast period.

As a result of both supply and demand constraints, average rent for

Figure 5

a two-bedroom apartment in the Winnipeg CMA will rise to $760 in 2007 and $800 by the end of 2008. While the provincially mandated increases are limited to two per cent in 2008, average rent increases will exceed that number for several reasons. Typically, the units that are removed from the rental pool are those with the lowest rents, while those that are added are the most recently constructed or renovated and tend to command higher rents, leading to an upward bias over time even if the number of units in the universe remains constant. Additionally, there are several exceptions to the guidelines which allow for greater than mandated rent increase under certain circumstances.

Economic Overview

There are several factors that are responsible for Winnipeg's strong real estate markets over the past five years. Most significantly has been the overall economic strength of the city and most of southern Manitoba. Regardless of the measure used, Winnipeg has enjoyed five years of relative prosperity. Unemployment is at multi-decade lows, even with participation rates at all time highs. Job creation is predominantly in full-time positions. There are a number of major capital projects underway that will continue into 2008, including the Manitoba Hydro building and the floodway expansion. The prospect of a new stadium and Human Rights Museum would provide another boost to a construction sector already operating near capacity.

The other major factor at work is a dramatic turnaround in net migration to the city. Winnipeg has, for several years, been the major beneficiary of Manitoba's Provincial Nominee Program for international immigrants. The effect has been largely muted, however, by the large exodus of Winnipegers to Alberta, particularly in 2005 and 2006. In 2007, however, Winnipeg enjoyed a significant reversal of the inter-provincial outflow, coupled with another strong year of international migration puts the city on pace for a net migration of 4,000. This will be followed up in 2008 by a further 3,500 new Winnipegers. As far as the housing market is concerned, that represents close to 1,600 and 1,400 new households respectively that will require a place to live.

The influence of these trends is reflected in the CMHC outlook for a number of indicators. Employment growth will be 1.9 per cent in 2007 and 1.8 per cent in 2008. The unemployment rate will stay below five per cent, and significantly below the national average, at 4.8 and 4.7 per cent, respectively, in 2007 and 2008. Limits on economic development in the city lie mostly in the availability of qualified labour. While there are initiatives in place to attract and retain skilled workers to the province, it will be an ongoing challenge for business leaders in the city.

Mortgage Rates Outlook

Mortgage rates are expected to remain flat through the end of 2007. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

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Forecast Summary Winnipeg CMA Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	10,797	11,415	11,594	12,350	6.5	12,450	0.8
MLS® New Listings	13,186	14,002	14,786	15,250	3.1	16,000	4.9
MLS® Average Price ($)	121,925	137,062	154,607	174,500	12.9	189,000	8.3
New Home Market							
Starts:							
Single-Detached	1,882	1,756	1,737	1,850	6.5	1,950	5.4
Multiples	607	830	1,040	1,575	51.4	1,500	-4.8
Starts - Total	2,489	2,586	2,777	3,425	23.3	3,450	0.7
Average Price ($):							
Single-Detached	232,032	252,252	268,104	300,000	11.9	325,000	8.3
New Housing Price Index (% chg.)	6.6	8.5	9.4	7.0	-	6.7	-
Rental Market							
October Vacancy Rate (%)	1.1	1.7	1.3	1.4	-	1.2	-
Two-bedroom Average Rent (October) ($)	664	683	709	760	7.2	800	5.3
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	-	7.19	-
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	-	7.41	-
Annual Employment Level	376,300	374,700	382,200	389,500	1.9	396,500	1.8
Employment Growth (%)	1.7	-0.4	2.0	1.9	-	1.8	-
Unemployment rate (%)	5.5	4.8	4.6	4.8	-	4.7	-
Net Migration	3,660	481	637	4,000	527.9	3,500	-12.5

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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